

17-7-513

**ECONOMIC DEVELOPMENT
CORPORATION**

**A COMPONENT UNIT
OF THE**

CITY OF SAULT STE. MARIE, MICHIGAN

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Sault Ste. Marie Economic Development Corporation	County Chippewa
Audit Date June 30, 2004	Opinion Date November 19, 2004	Date Accountant Report Submitted to State: December 21, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the **Governmental Accounting Standards Board (GASB)** and the Uniform *Reporting Format* for Financial Statements for Counties and Local *Units of Government* in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.

2. We are certified public accountants registered to practice in Michigan.

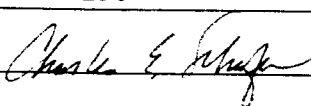
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson		Charles E. Schafer, CPA	
Street Address 902 S. Huron St., PO Box 250	City Cheboygan	State MI	ZIP 49721
Accountant Signature 			

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 19, 2004

Board of Directors
Economic Development Corporation
A Component Unit of the
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the ***Economic Development Corporation*** (the "EDC"), a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2004, which collectively comprise the EDC's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the EDC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental major fund of the EDC as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the EDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The EDC has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement although not required to be part of the basic financial statements.

Rehmann Johnson

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ECONOMIC DEVELOPMENT CORPORATION

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

BALANCE SHEET AND STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 135,041	\$ -	\$ 135,041
Investments	320,000	-	320,000
Accounts receivable, net	9,484		9,484
Capital assets not being depreciated	-	20,000	20,000
Capital assets, net of depreciation	-	10,054	10,054
Total assets	<u><u>\$ 464,525</u></u>	<u><u>30,054</u></u>	<u><u>494,579</u></u>
Liabilities			
Accounts payable	\$ 9,516	-	9,516
Accrued expenses	6,995	-	6,995
Noncurrent liabilities			
Compensated absences	-	8,152	8,152
Total liabilities	<u><u>16,511</u></u>	<u><u>8,152</u></u>	<u><u>24,663</u></u>
Fund balance			
Unreserved and undesignated	448,014	(448,014)	-
Total liabilities and fund balance	<u><u>\$ 464,525</u></u>		
Net assets			
Invested in capital assets		30,054	30,054
Unrestricted		439,862	439,862
Total net assets		<u><u>\$ 469,916</u></u>	<u><u>\$ 469,916</u></u>

Continued...

ECONOMIC DEVELOPMENT CORPORATION

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

BALANCE SHEET AND STATEMENT OF NET ASSETS

JUNE 30, 2004

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets

Total Governmental Fund Balance

\$ 448,014

Amounts reported for governmental activities in the
Statement of Net Assets are different because

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Add Capital assets, net

30,054

Certain liabilities, such as accrued compensated absences, are
not due and payable in the current period and therefore are not
reported in the funds.

Deduct Accrued compensated absences

(8,152)

Net Assets of Governmental Activities

\$ 469,916

Concluded

The accompanying notes are an integral part of these financial statements.

ECONOMIC DEVELOPMENT CORPORATION

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES**

FOR YEAR ENDED JUNE 30, 2004

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Operating grant	\$ 92,000	\$ -	\$ 92,000
Rental income	14,153	-	14,153
Investment earnings and other	9,306	-	9,306
Total revenues	115,459	-	115,459
Expenditures			
General government	146,579	6,978	153,557
Change in fund balance/net assets	(31,120)	(6,978)	(38,098)
Fund balance/net assets, beginning of year, as previously stated	468,580	28,880	497,460
Prior period adjustment	10,554	-	10,554
Fund balance/net assets, beginning of year, as restated	479,134	28,880	508,014
Fund balance/net assets, end of year	\$ 448,014	\$ 21,902	\$ 469,916

Continued...

ECONOMIC DEVELOPMENT CORPORATION

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES**

FOR YEAR ENDED JUNE 30, 2004

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
the Governmental Fund to the Statement of Activities**

Net Change in Fund Balance – Governmental Fund **\$ (31,120)**

Amounts reported for governmental activities in the statements are different because

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported the following depreciation expense. (4,553)

Compensated absences that are expended in the Statement of Activities (2,425)

Change in Net Assets of Governmental Activities **\$ (38,098)**

Concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

ECONOMIC DEVELOPMENT CORPORATION

**A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND**

FOR YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
Revenues			
Operating grant	\$ 92,000	\$ 92,000	\$ -
Rental income	40,680	14,153	(26,527)
Investment earnings and other	28,500	9,306	(19,194)
Total revenues	161,180	115,459	(45,721)
Expenditures			
General government			
Salaries and wages	67,500	61,918	(5,582)
Fringes	20,250	21,610	1,360
Utilities-rental building	19,800	41,118	21,318
Travel and entertainment	3,300	2,711	(589)
Office supplies	2,900	3,195	295
Contracted services	9,400	10,228	828
Printing and advertising	13,000	3,444	(9,556)
Dues and subscriptions	1,600	1,366	(234)
Capital outlay	13,765	-	(13,765)
Repairs and maintenance	2,235	2,235	-
Insurance	2,400	-	(2,400)
Bad debt	-	(1,246)	(1,246)
Miscellaneous	7,300	-	(7,300)
Total expenditures	163,450	146,579	(16,871)
Change in fund balance	(2,270)	(31,120)	(33,390)
Fund balance, beginning of year, as previously stated	468,580	468,580	-
Prior period adjustment	-	10,554	10,554
Fund balance beginning of year, as restated	468,580	479,134	10,554
Fund balance, end of year	\$ 466,310	\$ 448,014	\$ (22,836)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *Economic Development Corporation* (the "EDC") is a component unit of the City of Sault Ste. Marie, Michigan. The EDC is a non-profit corporation established in accordance with the provisions of the Michigan Economic Development Corporations Act, Act No. 338; Michigan Public Acts of 1974, as amended through October 16, 1978.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the EDC. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The EDC had no *business-type activities* during the year ended 2004.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the EDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the EDC.

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS**

The EDC reports the General Fund as a major governmental fund. The General Fund is the EDC's primary operating fund. It accounts for all financial resources of the EDC.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the EDC's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The EDC's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. *Capital assets*

Capital assets, which include land, vehicles and equipment, are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the EDC as assets that are used in operations and have initial useful lives beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the EDC are depreciated using the straight-line method over the estimated useful lives of five years.

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS**

3. *Compensated absences*

The EDC accrues vested or accumulated sick and vacation leave when earned by the employee. The noncurrent portion (the amount not expected to be liquidated with expendable available financial resources) for governmental funds is maintained separately and represents a reconciling item between fund and government-wide financial statements.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The EDC adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash and investments as shown on the Balance Sheet and Statement of Net Assets follows:

Cash and cash equivalents	<u>\$ 135,041</u>
Investments	<u>\$ 320,000</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 134,941
Imprest cash	100
Repurchase agreement	<u>320,000</u>
	<u>\$ 455,041</u>

ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

At year end, the carrying amount of the EDC's deposits was \$135,941. The bank balance of these deposits was \$138,008, all of which was insured by the Federal Depository Insurance Corporation (FDIC).

For the purpose of providing an indication of the assumed levels of risk, investments are categorized as follows:

- Category 1** Investments that are insured or registered or for which the securities are held by the EDC or its agent in the EDC's name.
- Category 2** Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the EDC's name.
- Category 3** Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the EDC's name.

Michigan law authorizes the EDC to deposit and invest in:

- (a) Bonds, securities, and other obligations of the United States of America or an agency or instrumentality of the United States of America.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this State or the United States of America.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a) above.
- (e) Bankers' acceptances of United States of America banks.
- (f) Obligations of the State of Michigan or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS**

- (h) Obligations described in (a) through (g) above if purchased through an interlocal agreement under the Urban Corporation Act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the Local Government Investment Pool Act, 1985, PA 121, MCL 129.141 to 129.150.

The Board of Directors is authorized to designate depositories for EDC funds and the funds are invested in accordance with State of Michigan statutory authority. In addition, the EDC has a repurchase agreement with Central Savings Bank in the amount of \$320,000 which is classified as a Risk Category 2 investment. The investment is carried at cost which approximates fair value.

B. Capital assets

Capital assets activity was as follows for the year ended June 30, 2004:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Vehicles	\$ 15,771	\$ -	\$ -	\$ 15,771
Equipment	12,544	-	90	12,454
Subtotal	<u>28,315</u>	<u>-</u>	<u>90</u>	<u>28,225</u>
Accumulated depreciation				
Vehicles	3,154	3,154	-	6,308
Equipment	10,554	1,399	90	11,863
Total accumulated depreciation	<u>13,708</u>	<u>4,553</u>	<u>90</u>	<u>18,171</u>
Capital asset being depreciated, depreciated, net	<u>14,607</u>	<u>4,553</u>	<u>-</u>	<u>10,045</u>

ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Governmental activities capital assets, net	<u>\$ 34,607</u>	<u>\$ 4,553</u>	<u>\$ -</u>	<u>\$ 30,054</u>

Unallocated depreciation expense for the year ended June 30, 2004 was \$4553.

C. Compensated Absences

All permanent employees of the EDC receive sick and vacation benefits in accordance with the City of Sault Ste Marie, Michigan guidelines. All employees are allowed to accumulate any unused sick and vacation hours up to specified limits. Upon termination of employment, the employee is entitled to compensation for the accumulated annual leave hours. This amount is reflected as a liability in the Statement of Net Assets. Accumulated compensated absences activity was as follows for the year ended June 30, 2004:

	<u>Balance July 1 2003</u>	<u>(Decreases)</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
Accrued compensated absences	<u>\$ 5,727</u>	<u>\$ 2,425</u>	<u>\$ 8,152</u>	<u>\$ -</u>

D. Income taxes

The EDC is a nonprofit corporation established under the Michigan Economic Development Corporation Act, Act No. 338, Michigan Public Acts of 1974 and, as such, is considered an instrumentality of the City of Sault Ste. Marie, Michigan. Accordingly, the EDC is included under the City's political subdivision and is not required to pay Federal or state income taxes under 170(c)(1).

E. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**ECONOMIC DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE
CITY OF SAULT STE. MARIE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS**

IV. OTHER INFORMATION

A. Risk management

The EDC is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The EDC has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Defined benefit pension plan

Plan Description

The EDC's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries through the City of Sault Ste. Marie, Michigan. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

C. Commitments and contingencies

As is the case with other entities, the EDC faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2004.

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 19, 2004

Board of Directors
Economic Development Corporation
A Component Unit of the
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Economic Development Corporation*** (the "EDC") a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2004, which collectively comprise the EDC's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the EDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the EDC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and cash disbursements and the recording of these transactions. The EDC recognizes this risk, but no change will be implemented because the cost would exceed the benefits.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we do not believe the reportable condition disclosed above is a material weakness.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Johnson



REHMANN ROBSON

Certified Public Accountants

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November 19, 2004

Board of Directors
Economic Development Corporation
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the *Economic Development Corporation* (the "EDC") for the year ended June 30, 2004, we considered the EDC's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal control and financial reporting responsibilities of the EDC. This letter does not affect our report dated November 19, 2004 on the financial statements of the EDC.

We have already discussed these comments with management, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2004-2005.

Rehmann Robson

ECONOMIC DEVELOPMENT CORPORATION

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2004

Electronically Filing The Financial Statements

Beginning with the fiscal year ended June 30, 2004, the EDC may submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. We would be happy to provide an electronic version of the financial statements for your use.

Economic Development Corporation – Timely Billing of Building Rental

The Economic Development Corporation (EDC) rents space in the Incubator Building to third parties under month-to-month rental agreements. Signed agreements are obtained. Customers are billed for the rental amounts agreed upon periodically. During our auditing procedures applied to the July 1, 2003 through June 30, 2004 rental revenue, we noted that rental income is not consistently billed on a timely basis. We recommend the EDC develop a procedure requiring in-advance billings to lessees which are due and payable by the first of each month.

We further noted during our audit procedures related to rent receivables, that certain balances are considerably past due. Per discussions with management, it was determined that two customers had past due balances totaling approximately \$20,000. The client has established a reserve for uncollectible accounts of approximately \$7,000 in relation to the past due balances. Collections were received intermittently during fiscal 2004 on these balances. We recommend that specific collection efforts should continue on these two accounts.

Economic Development Corporation/TIFA III – Accounting System

The Economic Development Corporation (EDC) and TIFA III are accounted for using Quicken software. Although this package does work, it is designed to account for personal financial information. Quickbooks, which is also owned by the EDC is a software package designed for business activities. This software would better capture the nature of the transactions of the EDC and would provide better reports for managements' use. We recommend that the EDC's general operations and Incubator rentals as well as the TIFA III Fund transactions be accounted for using the Quickbooks software.

Conclusion

It has been a pleasure to provide audit services to the *Economic Development Corporation*. Management was prepared for the audit, providing us with all supporting documents requested on a timely basis. The Management was friendly, conscientious and very helpful.

We appreciate your business! Thank you.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 19, 2004

Board of Directors
Economic Development Corporation
City of Sault Ste. Marie, Michigan 49783

We have audited the basic financial statements of the *Economic Development Corporation, a component unit of the City of Sault Ste. Marie, Michigan* (the "EDC") for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 10, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the EDC. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the EDC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the EDC are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2004. We noted no transactions entered into by the EDC during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the EDC that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the EDC's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the EDC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of the EDC and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohorn